Fairview Health Services

Continuing Disclosure Statement
for the Three Months Ended March 31, 2019

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Note: The attached information is provided for the benefit of registered or beneficial bondholders and other issuers of credit and credit enhancement to Fairview Health Services and the Fairview Obligated Group. Questions and/or requests for additional information should be directed to Kimberly Faust, Vice President and Treasurer at kfaust1@fairview.org or Eric Schubert, Director of Communications at eschube2@fairview.org. Additional information about Fairview can be found at: www.fairview.org.

Section One – Overview of Fairview Health Services

GENERAL

Fairview Health Services ("Fairview") an integrated health system located in Minneapolis, Minnesota, along with its affiliates and subsidiaries is one of the leading health care providers in Minnesota with $5.7 billion in operating revenue for 2018. Fairview offers a broad continuum of health care services through its hospitals, clinics, ambulatory care centers, senior and long-term care facilities, retail and specialty pharmacies, pharmacy benefit management ("PBM") services, rehabilitation centers, counseling and home health care programs, physician network and health insurance products. Fairview is a Minnesota non-profit corporation and is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "IRC").

Fairview serves the entire twelve county Greater Minneapolis/St. Paul Metro Area (the "Metro Area"), as well as communities throughout greater Minnesota and portions of Northern Iowa and Western Wisconsin, and is one of the most comprehensive and geographically accessible systems in Minnesota. Fairview offers a broad continuum of health care services and owns and operates eleven hospitals, including the University of Minnesota Medical Center, Fairview, with the University of Minnesota Masonic Children's Hospital (collectively, "UMMC"), which is the adult and pediatric teaching hospital of the University of Minnesota (the "University"). See "Relationship with the University of Minnesota" below. UMMC and eight of Fairview's other hospitals are located in the Metro Area. Fairview's other two hospitals are located in northern Minnesota. Fairview also operates over 100 primary and specialty care clinics, seven ambulatory care centers, over 40 retail and specialty pharmacies, pharmacy benefit management ("PBM") services, rehabilitation centers, counseling and home health care programs, physician network, as well as senior care housing and long-term care facilities, hospice and home care, medical transportation and a health plan.

Fairview, through its integrated care model, serves the Metro Area and greater Minnesota area aiming to deliver the benefits of academic medicine to more patients and families across the state by expanding care, research and education through access to a greater pool of physicians and patients, while reducing the total cost of care for patients.

Based on fourth quarter 2018 inpatient discharge statistics compiled by the Minnesota Hospital Association, Fairview is the second largest health care delivery system in the Metro Area with a combined 28.7% market share. From a net patient revenue standpoint, Fairview is the largest system in the Metro area, based on 2016 Medicare cost report data.

HEALTH CARE SERVICES

HOSPITALS

Fairview owns and operates the following hospitals: (i) UMMC, (ii) Fairview Southdale Hospital, (iii) Fairview Ridges Hospital, (iv) Fairview Lakes Medical Center, (v) Fairview Northland Medical Center, (vi) Fairview Range Medical Center, (vii) Grand Itasca Clinic and Hospital, (viii) HealthEast St. Joseph's Hospital, (ix) HealthEast St. John's Hospital, (x) HealthEast Woodwinds Hospital and (xi) Bethesda Long Term Acute Care Hospital (collectively the "System Hospitals").

As of March 31, 2019, the System Hospitals had a total of 3,519 licensed beds and 2,076 staffed beds.

Fairview also holds a twenty-five percent membership interest in Maple Grove Hospital Corporation ("MGHC"), which operates a 130-staffed bed community hospital in Maple Grove, Minnesota. North Memorial Health Care ("NMHC") holds the remaining seventy-five percent membership interest in MGHC. Fairview guarantees twenty-five percent or about $28.9 million of the debt service payable with respect to a series of tax exempt bonds with an aggregate principal amount outstanding of $115.6 million as of March 31, 2019 for the benefit of MGHC. The guaranty terminates if MGHC achieves a stand-alone credit rating equal to the rating of "Baa1" or better from Moody's Investors Service.

CLINICS, AMBULATORY CARE, PHARMACY AND OTHER SERVICES

Clinic Services. Fairview operates more than 100 primary and specialty care clinics throughout the Metro Area and greater Minnesota. These clinics offer services in over 70 medical specialties, including family medicine, pediatrics, obstetrics, gynecology, heart care, cancer care, otolaryngology, pre- and post-transplant care, and orthopedics.

Ambulatory Surgery Centers. Fairview owns all or a portion of eight ambulatory surgery centers located in the Metro Area and northern Minnesota, described below:

- Fairview owns and operates Fairview Maple Grove Surgery Center, an ambulatory surgery center located in Maple Grove, Minnesota that provides multi-specialty adult and pediatric outpatient surgical care, including colonoscopy, otolaryngology, eye, gastroenterology, obstetrics and gynecology, orthopedics, plastic and reconstructive surgery, podiatry, endoscopy, urology and vascular services.

- Fairview is a 50% owner of Crosstown Surgery Center LLC, an ambulatory surgery center located in Edina, Minnesota that specializes in orthopedic surgery using advanced technology.

- Fairview is a 51% owner of Ridges Surgery Center LLC, an ambulatory surgery center located in Burnsville, Minnesota that provides multi-specialty outpatient surgical care, including gynecology, orthopedics, podiatry, otolaryngology, ophthalmology, spine, anesthesia and general surgery services.

- Range Regional Health Services, of which Fairview is the sole member, is a 51% owner of Northwoods Surgery Center LLC, an ambulatory surgery center located in Virginia, Minnesota that provides multi-specialty outpatient surgical care, including ophthalmology, orthopedics, otolaryngology and general surgery services.

- Fairview, through a joint venture with UMPhysicians, has a 50% membership interest in the University of Minnesota Health Clinics and Surgery Center (the "MHealth CSC joint venture") that provides outpatient clinic and surgical care for thirty-seven medical specialties including primary care, neurology, cardiology, dermatology, orthopedics, hepatology, solid organ transplant, ear, nose and throat, endoscopy, urology and vascular services. The MHealth CSC joint venture outpatient specialty care and surgical services leases space within the University of Minnesota Clinics and Surgery Center facility ("CSC"). Fairview also operates provider based clinics within the CSC building.

- Fairview is a 51.1% owner of HealthEast Surgery Center – Maplewood, LLC and independent physician partners owning the remaining) which is a Minnesota limited liability company that owns a freestanding surgery center located in Maplewood, Minnesota (the “Maplewood Surgery Center”).

- Fairview is a 20.0% owner of Vadnais Heights Surgery Center, LLC, an ambulatory surgery center located in Vadnais Heights, Minnesota.

- Fairview is a 51% owner of SouthHealth Ambulatory Surgery Center (“SHASC”) joint venture located in Edina, Minnesota. SHASC provides multi-specialty surgical care.

Pharmacy Services. Fairview and Fairview Pharmacy Services (“FPS”), owns and operates pharmacies at more than 40 locations, including a network of retail pharmacies, oncology pharmacies, a home infusion pharmacy, and a specialty pharmacy. The specialty pharmacy provides drugs and a variety of clinical management services for specialty diseases and chronic conditions including: cancer, cystic fibrosis, fertility treatment, growth hormone deficiency, hemophilia, hepatitis C, HIV, inflammatory conditions (Crohn’s disease, psoriasis, psoriatic arthritis, and rheumatoid arthritis), multiple sclerosis, pulmonary hypertension, metabolic disorders, and respiratory syncytial virus. In addition to operating retail and specialty pharmacies, Fairview also provides mail order pharmacy, pharmacy benefits management, retail merchandising, clinical trial services, medication therapy management, long term care pharmacy services, a dedicated hemophilia pharmacy co-located with the University Hemophilia Treatment Center, 503a & 503b compounding pharmacies, hospice pharmacy and physician office drug and supply services.

Fairview Rehabilitation Services. Fairview’s Rehabilitation Services (“FRS”) provides a full continuum of inpatient and outpatient rehabilitation services for pediatric and adult patients: including an inpatient rehabilitation facility, a hospital based skilled nursing facility and an adult day program. In addition to providing inpatient services in eleven hospitals, 39 outpatient clinics, and 15 pediatric outpatient clinics, FRS has a wide range of both hospital and clinic based outpatient sites providing cardiac rehab, cancer rehab, neuro rehab, vestibula, musculoskeletal rehab and audiology. FRS provides nearly 700,000 patient visits each year. Fairview also provides outpatient orthopedic therapy services through the Institute for Athletic Medicine (“IAM”), and seven hand centers. A joint venture between Fairview (which owns 63%) and North Memorial Health, IAM provides outpatient physical therapy, hand therapy, and chiropractic services for the treatment of a range of musculoskeletal and orthopedic conditions, including sports related injuries. There are 28 clinic facilities operating under the IAM name, making IAM one of the largest providers of outpatient sports and orthopedic therapy services in the Upper Midwest.

HealthEast Medical Transportation. HealthEast Medical Transportation (“HEMT”) offers emergency medical services for a changing, technology-driven world. HEMT provides emergency and scheduled transportation across the Metro Area and supports the community by providing more than 40,000 calls annually. Additionally, HEMT offers emergency vehicle services that specialize in the build and modifications required for vehicles used in public service for local, state and federal agencies.

SENIOR HOUSING, LONG-TERM CARE FACILITIES AND SENIOR SERVICES

Fairview provides a wide range of senior care facilities and services through Ebenezer, a non-profit subsidiary of Fairview. Ebenezer provides long-term senior care facilities, senior housing, adult day services, home care and hospice and rehabilitation services.

Through Ebenezer, Fairview owns and operates four long-term senior care facilities. Ebenezer also operates over 92 senior housing facilities (10 of which are owned and managed) in the Metro Area and greater Minnesota and Iowa.

In addition to Ebenezer, Fairview has a 45% non-consolidated minority ownership interest in Cerenity Care Center, which provides senior living care facilities and services in the Metro Area

HEALTH PLAN SERVICES

Fairview is the sole owner of PreferredOne, a health services organization, founded in 1984, that provides a comprehensive range of health benefit services, including insurance products and third party administrative ("TPA") services, to employers and individuals throughout Minnesota with contracts covering 99% of clinics and hospitals throughout the state and the upper Midwest, in addition to a national network for employers with employees throughout the United States. These services are provided through PreferredOne's three companies – PreferredOne Community Health Plan, PreferredOne Administrative Services and its wholly owned subsidiary, PreferredOne Insurance Company ("PIC"). Collectively, the PreferredOne companies serve approximately 360,000 members, of which approximately 42,000 are fully insured at risk members in addition to serving 2,200 employers. The remaining membership includes approximately 104,000 network rental members and approximately 213,000 members in TPA employer sponsored and self-insured plans. PIC also provides stop loss insurance policies for approximately 105,000 of the 213,000 TPA members. In 2018, PreferredOne had $268.0 million in total revenue. PreferredOne's Insurance Company's Capital and Surplus exceeds the regulatory Risk Based Capital (RBC) 200% minimum level.

PHYSICIAN NETWORK

Employed and Staffed Physicians. Fairview has a large physician network which includes both employed and affiliated physicians. As of March 31, 2019, Fairview employed approximately 1,239 physicians.

Fairview Physician Associates Network. Fairview Physician Associates Network ("FPA"), a Minnesota nonprofit tax-exempt corporation of which Fairview is the sole corporate member, was incorporated in 1993. FPA is an integrated practice network of approximately 3,763 providers, of which approximately 2,591 are physicians, including the majority of Fairview's employed physicians. As a physician led nonprofit organization, FPA works to advance community health by improving the quality, patient experience and total cost of care of services delivered to patients. FPA, as a large, multi-specialty group, contracts with health plans. By helping its providers reach quality goals, FPA manages clinical risk for patient populations to enhance excellence of care. FPA also offers services to support clinical care, patient safety and to enhance clinical integration. In conjunction with Fairview, the FPA network provides a full range of primary care and specialty services.

University of Minnesota Physicians. Since 1997, Fairview has partnered with the University of Minnesota and the University of Minnesota Physicians ("UMPhysicians Agreement") through affiliation agreements. University of Minnesota Physicians ("UMPhysicians") is a non-profit organization of approximately 1,188 physicians that operates the direct patient care clinic practice of the University of Minnesota Medical School. Physicians affiliated with UMPhysicians primarily practice within UMMC and other Fairview facilities. The UMPhysicians Agreement provides that the principal site for clinical practice for UMPhysicians will be UMMC and the clinics located at UMMC. In addition, UMPhysicians has agreed to use UMMC as the principal venue for educational and new research opportunities when and where appropriate resources are available at UMMC. Fairview has agreed to support UMMC as the flagship teaching hospital in accordance with the affiliation agreements.

Fairview, the University and UMPhysicians approved a new agreement (the "New MHealth Fairview Agreement") that was effective December 28, 2018.

See "Recent Acquisitions, Expansion Projects, and Other Updates" section for more details.

Fairview Partners. Fairview Partners is an integrated health care network, providing medical care for nursing home residents and other seniors through risk sharing insurance products. As of March 31, 2019, Fairview Partners had 4,282 members enrolled in two different health plans, including 3,100 members with UCare, 1,182 members with Medica, and 370 members with Blue Cross Blue Shield. Fairview Partners currently serves both nursing home residents and seniors living in their own homes under the Minnesota Senior Health Options project. There are 35 community nursing homes (including two Ebenezer-owned facilities) in the Metro Area participating in Fairview Partners.

STRATEGIC ALLIANCES

Fairview Health Network. Fairview is committed to delivering on the Triple Aim goals of improving the patient experience, improving the health of populations and reducing the cost of healthcare. In order to accomplish this objective, Fairview has entered into various agreements with payers to manage quality, risk and cost across the full continuum of reimbursement models. For total cost of care contracts, Fairview uses a hybrid payment model that incorporates at risk elements based on quality, patient satisfaction and management of the total cost of care of a population, with health plan members attributed to the primary care clinics within Fairview based on utilization. These products create a mechanism in which the Fairview is rewarded for reductions in total cost of care and improved quality through enhanced relationships with patients served. Through June of 2018, Fairview's average cost of care was below the Metro Area average for its commercial contracts.

Fairview has also entered into limited network products with select health plans. In these products, the members enroll in a product that has lower premiums or member costs, but carry a significant out of pocket penalty for out of network utilization. Because the members are enrolled, the provider network is able to identify each member upon enrollment and, as a result, can proactively design plans of care. In these limited network products, Fairview shares both in the margin and loss of the product. For 2019 Fairview added limited network ACO products with Blue Cross of Minnesota for both the Medicare and Commercial markets and with United HealthCare for the Commercial market.

In 2013, Fairview established a clinically integrated network comprised of Fairview, North Memorial and HealthEast known as the Relevant Network ("Relevant"). The goal of Relevant is to share best practices, improve outcomes, enhance patient satisfaction and advance total cost of care savings by establishing product offerings that are differentiated in the market. Relevant's member organizations align under an accountable care model and share governance responsibilities. At December 31, 2018, Relevant had 120,000 members.

In 2019, Fairview and FPA moved from the State of Minnesota's base Medicaid Integrated Health Partnership (IHP) program to the 2.0 version of this program. In so doing, Fairview accepted additional risk but also secured a significant care management payment and an improved model because of some community development work that Fairview has in place. HealthEast also joined with other independent physician groups to create Community Health Network ("CHN"). Starting in 2013, CHN joined the Medicare shared savings program. Beginning in 2017, CHN also enrolled in the state's IHP program. CHN is not projected to earn a shared savings payment for its participation in the Medicare Shared Savings Program ("MSSP") program in 2018 based on data through June, but is expected to earn as much as $2.0 million for management of its members cost in the IHP program. In total, these agreements have established quality outcomes and/or shared savings incentives or limited risk contracts with commercial and governmental payers that now cover over 400,000 lives. With the proliferation of both public and private insurance exchanges, a continued increase in this financial model is anticipated, and Fairview is well positioned to take advantage of that market shift.

ExceleraRx. Fairview, along with several other health systems from across the United States, formed the Excelera Specialty Pharmacy Network, a national network of specialty pharmacies owned by integrated delivery systems and academic medical centers. This network brings together like minded health systems and academic medical centers to work together around specialty drugs and caring for complex and chronic patients. ExceleraRx Corp ("Excelera") was formed as a vehicle to facilitate and support the network. As of December 31, 2018, the network consisted of 22 integrated delivery systems and academic medical centers.

The Excelera network provides members nationally scaled infrastructure, technology and support to develop best practices for specialty pharmacy capabilities and gain access to limited distribution drugs and biologics and restrictive payer agreements, which allows members to provide continuity of care for patients with complex and chronic conditions, leading to improved health outcomes and decreased healthcare costs. Members pay Excelera fees in exchange for such services. This integrated coordinated care model is intended to drive higher quality while reducing the total cost of care.

Excelera's current owners are FPS, Catholic Health Initiatives of Englewood, Colorado; Intermountain Healthcare of Salt Lake City, Utah; Banner Health of Phoenix, Arizona; Henry Ford Health System of Detroit, Michigan; Avera McKenna of Sioux Falls, South Dakota; and Regional Health of Rapid City, South Dakota.

Other Strategic Alliances. Fairview has many other strategic alliances in place with other health care providers and payers and is periodically engaged in discussions with both existing partners about the expansion of current relationships and various other parties regarding possible new alliances. These alliances are expanded or established to provide more comprehensive patient care and services. Future alliances could take the form of affiliations, partnerships, joint ventures, acquisitions, mergers or other arrangements.

INFORMATION TECHNOLOGY

Fairview's hospitals and clinics are utilizing the EPIC electronic health record system. The EPIC system assists caregivers in providing care to all patients at the hospital and clinic care locations by improving patient safety, enhancing care coordination between medical professionals and ensuring the timeliness and accuracy of the revenue cycle processes.

Fairview has also invested in virtual care throughout the entire organization—from hospitals, emergency departments and clinics to home care and hospice, pharmacy, senior living community and home-based settings. Many virtual care initiatives expand access in rural communities to specialty care, providing video appointments and consultations with a wide range of specialists in areas such as maternal fetal medicine, cardiology, psychiatry, infectious disease and dermatology. Fairview's tele ICU offers remote monitoring by intensivists and registered nurses certified in critical care. Fairview offers remote behavioral health crisis assessments in six emergency departments, as well as remote interpreter services capabilities. Video consultation with Medication Therapy Management pharmacists brings their expertise to a variety of clinic, assisted living and home-based settings. Fairview also has several programs to monitor patient health status in their homes. In addition, Fairview's partnership with Zipnosis, through its OnCare brand, provides online diagnosis and treatment for patients with select conditions that generally do not require a trip to the doctor. Fairview also offers convenient remote diagnosis and treatment capabilities via EPIC's MyChart (patient portal) for a number of conditions that do not require a clinic office visit. Additionally, Fairview has developed advanced video visit capabilities within EPIC to support expanded virtual care offerings.

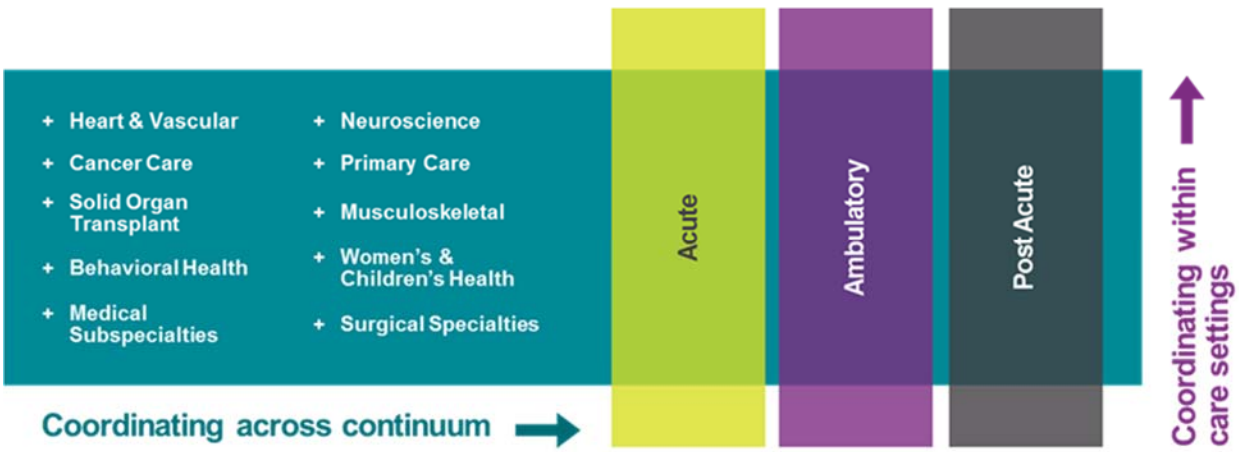
Fairview has a robust information security function, which is managed by a dedicated Chief Information Security Officer ("CISO"). Key functional areas include policy, governance, network/application access oversight, PCI, HIPAA, security controls, architecture and design, compliance and technical security oversight. The Board of Director's Information Technology Committee provides direction, oversight and counsel regarding all aspects of information technology strategy and risks.

KEY ORGANIZATIONAL UPDATES

New MHealth Fairview Agreement. Fairview, the University and UMPhysicians approved a new agreement (the "New MHealth Fairview Agreement") effective December 28, 2018. While the parties will maintain their existing separate governance, the New MHealth Fairview Agreement further integrates operations across the clinical delivery system and enhances research and education by creating a joint clinical enterprise among the parties. The New MHealth Fairview Agreement re-shapes the previous University of Minnesota Health (MHealth) partnership to bring together not only the University of Minnesota Medical Center and its related service lines, but also Fairview's other hospitals, primary care clinics, and other services (including legacy HealthEast hospitals and clinics). All will be part of a shared care delivery system that will be led by a single structure that includes academic physician leadership. The New MHealth Fairview Agreement creates the further opportunity to create a nationally-renowned academic health system. This care system will be united under a single brand, MHealth Fairview, which will launch in the second half of 2019.

The New MHealth Fairview Agreement is also designed to simplify, clarify and streamline the affiliation between the organizations and will continue through December 31, 2026, with an option for a 10-year extension in 2023. The agreement includes increased financial support for the academic mission to improve University of Minnesota Medical School rankings and recruit leading faculty. This increased academic support to the University of Minnesota Medical School includes $40 million in 2019, $45 million in 2020 and $50 million in 2021 and 2022, and the opportunity for additional variable support payments based on the financial performance of Fairview. Goals for this support will align with the programs of distinction envisioned for growth in the system along with additional benefits such as better synergies between the organizations, alignment of patient care objectives and expanded academic reach within the Metro Area due to the acquisition of HealthEast in 2017.

Organizational realignment. Recognizing that historically the burden often fell on patients to own the complexity of care and experience, Fairview has adopted a new operating model to more fully realize the potential of its integrated health care system to serve its communities. Specifically, Fairview transitioned from a regional and vertical model to a service line operating model in which it takes on more of the complexity for its patients to drive a more seamless and consistent experience for them wherever they receive care within Fairview. In the first quarter of 2018, Fairview implemented a new organizational structure to support this operating model. Realignment of programs and services to the new model will continue throughout 2019. Below is a visual of the new operating model.



Chief Information Officer. Sameer Badlani, MD, FACP, joined Fairview as Chief Information Officer on Monday, April 1. Dr. Badlani came to Fairview from Sutter Health where he served as Chief Health Information Officer and System Vice President of Enterprise Data Management and Analytics for the last three years. Before that, he was Chief Health Information Officer at Intermountain and Chief Medical Information Officer at University of Chicago Medical Center and School of Medicine. After he received his medical degree from the University of Delhi in India, Sameer completed his internal medicine residency training and served as chief resident at the University of Oklahoma. He also received training in biomedical informatics at the University of Utah in Salt Lake City. A national speaker, educator, and consultant on topics in digital medicine, clinical informatics, analytics, and innovation, Sameer sits on the board of DirectTrust and Carnegie Mellon's Center for Machine Learning and Health. Recently, he was named to the Becker's 2019 list of top Health System CIOs.

Chief Financial Officer. Hayes Batson was named Senior Vice President and Chief Financial Officer, on April 8, 2019. Mr. Batson replaced Dan Fromm, who had previously announced that he would be departing Fairview on April 3, 2019. Mr. Batson has spent the last seven years on the board of directors for Children's Minnesota. While on the board, he served as board chair, led work to evaluate strategy and partnership opportunities and provided oversight of key payer negotiations, revenue cycle and strategic pricing initiatives. Mr. Batson's career extends beyond a traditional health care finance background. He built his business acumen with early career experience at McKinsey & Company, Inc. and William Blair & Company before co-founding Epotec, Inc., a behavioral health software and content company. After that, Mr. Batson was CEO and, then Chairman, of Regency Beauty Institute, and, most recently, was the CEO and co-founder of Tinket, a consumer digital scheduling company.

Chief Marketing, Communications, and Digital Experience Officer. Scott Weber joined Fairview in a new chief role leading marketing, communications, and the digital experience for M Health Fairview effective March 18, 2019. Scott joined Fairview from Accenture, where he was a managing partner focused on digital health. Before that, he consulted in the same health care experience space at PricewaterhouseCoopers. The first half of his career was spent building brands like Walmart, Ikea, Samsung, Miller Coors, Anheuser-Busch InBev, and Capital One working with prestigious agencies including Fallon, Carmichael Lynch, Leo Burnett, and Young and Rubicam.

National Sports Center Partnership. Fairview has partnered with the National Sports Center ("NSC") in Blaine, Minnesota, one of the world's largest amateur sports facilities, to develop additional market-facing clinical programming focused on sport science in addition to providing sponsorship to develop and expand physical capacity and other services on the campus that will enhance the experience of the patrons and create value to the community. By expanding Fairview's nearly 20-year relationship, this partnership extends the teaching opportunities for University of Minnesota Medical School students, residents, and fellows during USA Cup, one the largest youth soccer tournaments in the world, and fosters opportunities for more research.

Health Transformation Center. The Health Transformation Center is Fairview's new hub for process innovation and is focused on tackling three key challenges. The Health Transformation Center will develop a single point of contact for customers to simplify all interactions with the system. It will connect patients to their health journey in convenient, relevant and simple ways, intervening earlier to improve health outcomes. It will coordinate operations across the system to provide real-time visibility into what's happening so issues are predicted and addressed before they become problems. Over time, the Health Transformation Center will help Fairview synthesize other new innovations into the system and continue to remove complexity and burden for all that we touch. The first phase of the Health Transformation Center will launch in June 2019 with expanded capabilities in the months following.

Bond Issuance. In October 2018, Fairview closed on the issuance of $263.9 million of fixed-rate tax-exempt Series 2018A bonds to currently refund existing tax-exempt debt and fund $100.0 million of capital projects including improvements primarily at UMMC. Fairview also issued $223.5 million of tax-exempt variable rate demand bonds, Series 2018B and 2018C, to refund tax-exempt variable rate direct placement bank debt.

UMMC Campus Plan. In October 2017, Fairview approved a capital investment on the UMMC campus to support current and future patient volumes and other strategic initiatives. The project will add capacity in the Emergency Department and Observation Unit, Operating Rooms and inpatient units. Fairview expects the total project to cost approximately $111.6 million and to be completed over a three-year period. This project will be partially funded with proceeds from the Series 2018A Bonds with the remaining costs covered through an equity investment by Fairview.

Strive ACO Product. In October 2018, Fairview, Blue Cross Blue Shield of Minnesota, and North Memorial Health announced the Strive consumer-centric health insurance product for 2019. The name Strive comes from the shared commitment between Fairview, Blue Cross, and North Memorial Health to meet each individual where they are and help guide them to their best health.

Designed as a focused approach for delivering highly coordinated and personalized care, Strive will be available to large employers (50 or more employees); Medicare Advantage beneficiaries; and individuals who purchase insurance coverage on their own. All Strive products feature the same comprehensive network, offering a vast array of providers that address the full spectrum of care. With primary and specialty care doctors from Fairview, University of Minnesota Health and other community providers, Strive makes it easy for members to stay in-network and get the care they need. Collectively, the Strive network includes 5,000+ affiliated providers, 12 hospitals and medical centers, nearly 150 primary and 450 specialty clinic locations, and 40+ retail pharmacies. In addition, Strive members have access to a set of wellbeing programs and online tools that can further empower them to take charge of their health.

Fairview Employer Solutions Offering. Fairview recently announced a portfolio of direct-to-employer services developed in partnership with a number of leading Minnesota employers. Services within the portfolio include enhanced employee assistance programs, executive health, onsite clinics, sleep health, and virtual web-based care. These services are specifically designed to help employers accomplish their goals for employee satisfaction, lower medical costs, lower absenteeism, higher productivity and ultimately, better health outcomes for their employees.

Proteus Digital Health. In January 2019, Fairview announced plans to partner with Proteus Digital Health, a United States digital therapeutic company focused on developing platforms including sensor-embedded medications, for the use of digital medicines to boost results for cancer patients.

The digital oncology medicines are expected to help patients complete their oral chemotherapy cycles, while helping oncologists to monitor the patients' treatment progress and overall health status. The digital medicine is currently being used to help treat patients with stage three and four colorectal cancer.

Senior Services Expansion. Ebenezer has entered into contracts to manage several new senior living communities currently being constructed by various third-party developers. A highlighted selection of the managed developments is described below:

- Pillars of Mankato Senior Living, located in Mankato, Minnesota, includes 84 independent/assisted living and 21 memory care apartments, in addition to guest suites and entertainment facilities. The development opened in March 2019.

- Orchards of Minnetonka Senior Living, located in Minnetonka, Minnesota, includes 127 independent/assisted living and 20 memory care apartments, in addition to guest suites and entertainment facilities. The development opened in April 2019.

- Riley Crossing Senior Living in Chanhassen, Minnesota is a senior living campus that will include 101 apartments for assisted and independent living, along with 18 units in nine villa-like buildings, and a 14-suite memory care wing, in addition to a child care center. The facility is expected to open in the summer of 2019.

- TimberCrest at Glen Oaks, located in Clear Lake, Iowa, will include 48 independent living apartments. The community is attached to Glen Oaks Community Center and is expected to open in August 2019.

- Pillars of Prospect Park Senior Living, located in Prospect Park, Minnesota, will include 234 independent/assisted living and 50 memory care apartments, in addition to a child care center. The development is expected to open in the spring of 2020.

Minnesota Nurses Association Contract Negotiation. Fairview and other local health systems in the Minneapolis/St. Paul metropolitan market are currently in negotiations with the Minnesota Nurses Association union, with the current three-year contract set to expire on May 31, 2019. The Minnesota Nurses Association represents approximately 4,000 metro-area nurses employed in the health system. Fairview values its nurses, is committed to negotiating in good faith and has a goal to reach a reasonable and fair agreement with the union that is good for our patients, our nurses and our hospitals before the contract expires. Fairview has contingency plans in place in the event the nurses choose a work stoppage. The nurses are scheduled to typically vote in May on the proposed contract terms for a new three-year contract.

AWARDS AND RECOGNITION

CMS– Hospital Quality Ratings. In March 2019, Fairview hospitals were recognized nationally by the Center for Medicare Services for quality of care. The ratings are valuable consumer tools that provide helpful and important information on the safety and quality of our nation’s hospitals. Patient survey data is the basis for the ratings for individual measures and a combined score. The individual measures include but are not limited to communication, pain management, care transition, and hospital cleanliness.

Fairview Hospitals earnings three stars and above are:

Five Star Hospitals:

Fairview Ridges

Fairview Southdale

Four Star Hospitals:

Fairview Lakes

Fairview Northland

Grand Itasca Clinic and Hospital

HealthEast Woodwinds

Range Hospital and Clinic

Three Star Hospitals:

University of Minnesota Medical Center

U.S News & World Report – Best Medical Schools. In March 2019, the University of Minnesota Medical School was named one of the ten best medical schools for primary care. The ratings were developed based on data in seven categories including quality, research activity, and faculty resources.

GHX Best Supply Chains. In February 2019, Fairview has been recognized by Global Health Exchange as one of the best healthcare supply chains in North America. The award recognizes those organizations for improving operational performance and driving down costs. Organizations are evaluated in several areas including document automation, exchange utilization, and trading partner connections.

OBLIGATED GROUP AND OTHER FAIRVIEW SUBSIDIARIES

Members of the Obligated Group currently include Fairview, Range Regional Health Services ("RRHS"), Fairview Pharmacy Services ("FPS"), HealthEast, HealthEast St. Joseph's Hospital ("St. Joseph's"), HealthEast St. John's Hospital ("St. John's"), HealthEast Woodwinds Hospital ("Woodwinds") and Grand Itasca Clinic and Hospital ("Grand Itasca" and, together with Fairview, RRHS, FPS, HealthEast, St. Joseph's, St. John's, and Woodwinds, the "Obligated Affiliates"). Fairview owns and operates UMMC and four other hospitals in the Metro Area and is the sole member of FPS, HealthEast, RRHS and Grand Itasca. RRHS owns and operates Fairview Range Medical Center, located in northern Minnesota.

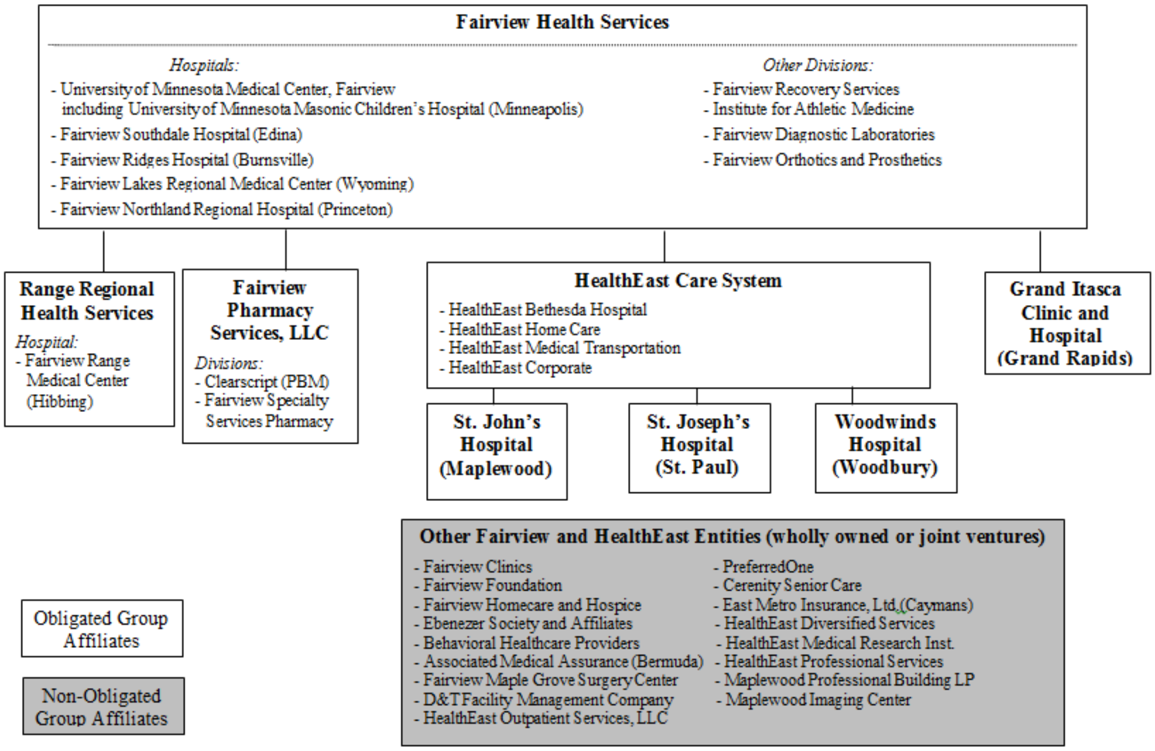
HealthEast, owns and operates Bethesda Long Term Acute Care Hospital, HealthEast Home Care, an in home skilled nursing and therapy service and HealthEast Medical Transportation, an ambulance and medical transportation service, which operations are all part of the Obligated Group, and is also the sole member of St. Joseph's, St. John's and Woodwinds.

The Obligated Group accounted for approximately 86% of Fairview's consolidated total operating revenue for the three months ended March 31, 2019, and approximately 88% of Fairview's total consolidated assets at March 31, 2019.

None of the other Fairview subsidiaries, joint ventures, or partnerships in which Fairview has an interest are members of the Obligated Group (collectively these excluded entities are referred to as the "Non-Obligated Group").

The following exhibit illustrates the significant entities comprising Fairview and indicates whether each entity is a member of the Obligated Group.

FAIRVIEW AND FAIRVIEW SUBSIDIARIES



GOVERNANCE AND MANAGEMENT

Executive Management. The names, titles, ages and professional backgrounds of the executive officers of Fairview are set forth below.

James Hereford (59), Fairview President and Chief Executive Officer. Mr. Hereford was appointed President and Chief Executive Officer on October 27, 2016 with an effective date of December 12, 2016. Mr. Hereford joined Fairview after serving as Chief Operations Officer at Stanford Health Care from 2013 to 2016 where he was responsible for all inpatient and ambulatory operations as well as various administrative functions. Prior to his role at Stanford, he was Chief Operations Officer at the Palo Alto Medical Foundation where he was responsible for operations serving more than 800,000 people in the San Francisco Bay area. Mr. Hereford holds bachelor's and master's degrees in mathematics from Montana State University. He has taught courses with Stanford University's Graduate School of Business, University of Washington's Master of Health Administration program and The Ohio State University's Masters of Business Operations Excellence Program.

Sameer Badlani, MD, FACP, Chief Information Officer (45). Dr. Badlani joined Fairview on April 1, 2019 from Sutter Health where he served as Chief Health Information Officer and System Vice President of Enterprise Data Management and Analytics for the last three years. Before that, he was Chief Health Information Officer at Intermountain and Chief Medical Information Officer at University of Chicago Medical Center and School of Medicine. After he received his medical degree from the University of Delhi in India, Sameer completed his internal medicine residency training and served as chief resident at the University of Oklahoma. He also received training in biomedical informatics at the University of Utah in Salt Lake City. A national speaker, educator, and consultant on topics in digital medicine, clinical informatics, analytics, and innovation, Sameer sits on the board of DirectTrust and Carnegie Mellon's Center for Machine Learning and Health. Recently, he was named to the Becker's 2019 list of top Health System CIOs.

Hayes Batson, Chief Financial Officer (48). Mr. Batson joined Fairview on April 8, 2019. Mr. Batson has spent the last seven years on the board of Children's Minnesota. While on the board, he served as board chair, led work to evaluate strategy and partnership opportunities and provided oversight of key payer negotiations, revenue cycle and strategic pricing initiatives. Mr. Batson's career extends beyond a traditional health care finance background. He built his business acumen with early career experience at McKinsey & Company, Inc. and William Blair & Company before co-founding Epotec, Inc., a behavioral health software and content company. After that, Mr. Batson was CEO and, then Chairman, of Regency Beauty Institute, and, most recently, was the CEO and co-founder of Tinket, a consumer digital scheduling company.

Bob Beacher (63), Chief of Shared Clinical Services. Mr. Beacher has administrative responsibility for Fairview's laboratory, radiology, rehabilitation, and pharmacy teams. In addition, he serves as president of Fairview Pharmacy Services and provides executive leadership over respiratory therapy, Fairview ambulatory surgery centers and joint ventures. Mr. Beacher is a registered pharmacist and earned his bachelor's degree from the University of Minnesota. Mr. Beacher, with more than 30 years of health care experience, is a member of several state and national pharmacy associations and serves on Fairview's Ethics Committee.

Carolyn Jacobson (58), Chief Human Resources Officer. Ms. Jacobson is responsible for all aspects of human resources, including talent recruitment and performance management, compensation and benefits, employee and labor relations, training and development and human resources administration. Ms. Jacobson joined Fairview in 2008 from Honeywell where she was global organizational effectiveness leader. She has worked in organizational development and leadership training for more than 20 years and earned a bachelor's degree from the University of Minnesota.

Laura Reed, RN, DNP (57), Chief Operating Officer and Chief Nursing Executive. Ms. Reed rejoined Fairview in July 2017 as Chief Nursing Executive and in August 2018 also became the System's Chief Operating Officer. Prior to rejoining Fairview, Ms. Reed was with ThedaCare where she served as their Chief Nurse Executive from 2015 to 2016 and as their Chief Operating Officer from 2016 to 2017. Previously Ms. Reed held several leadership positions including Chief Nurse Executive for the University of Minnesota Health (from 2013 to 2015). She also had a prior position of Senior Vice President patient care services and Chief Nursing Officer for Mercy Medical Center in Cedar Rapids, Iowa from 2011 to 2013. She holds an executive master's degree in business administration and a master's degree in nursing from the University of Iowa. She received her bachelor's degree in nursing from Coe College and a diploma in nursing from the Finley Hospital School of Nursing.

Trudi Noel Trysla (52), Chief Legal Officer and General Counsel. Ms. Trysla develops Fairview's overall legal strategy, leads Fairview's legal and ethical adherence to federal and state law and health care public policy, and oversees the Fairview's legal and risk management functions. Ms. Trysla was named general counsel in February 2014 and has more than 20 years of legal experience in health care. She joined Fairview in 2008 as associate general counsel. Prior to joining Fairview, Ms. Trysla served as senior legal counsel at Medtronic, Inc.; as legal counsel for Mayo Foundation in Rochester, Minnesota; and as an attorney in private practice. Ms. Trysla earned her law degree from the University of Minnesota and her bachelor's degree from the University of Nebraska.

Scott Weber, Chief Marketing, Communications, and Digital Experience Officer (47). Mr. Weber joined Fairview on March 18, 2019 from Accenture, where he was a managing partner focused on digital health. Before that, he consulted in the same health care experience space at PricewaterhouseCoopers. The first half of his career was spent building brands like Walmart, Ikea, Samsung, Miller Coors, Anheuser-Busch InBev, and Capital One working with prestigious agencies including Fallon, Carmichael Lynch, Leo Burnett, and Young and Rubicam.

Mark Welton, MD (62), Chief Medical Officer. Dr. Welton became Chief Medical Officer of Fairview in July 2017. Prior to joining Fairview, Dr. Welton was the Harry A. Oberhelman Jr. Professor of Surgery and Chief of Colon and Rectal Surgery in the Stanford University School of Medicine and Chief of Staff for Stanford Hospital and Clinics from 2007 to 2017. He is board certified in general surgery and colon and rectal surgery. He serves on the American Board of Surgery, the American Board of Colon and Rectal Surgeons and the American Society of Colon and Rectal Surgeons Research Foundation. He received his MD and completed his surgical residency at University of California, Los Angeles before completing a fellowship in Colon and Rectal Surgery at Washington University.

BOARD OF DIRECTORS. The Board of Directors of Fairview (the "Board") governs Fairview and is responsible for, among other matters, the assets of Fairview, quality, patient care, compliance and its overall business and financial performance. Fairview's bylaws authorize up to 21 directors: nine elected directors, not less than three and not more than nine appointed directors and 3 ex officio directors. The three ex officio directors are the President and CEO of Fairview, the Dean of the University of Minnesota Medical School and the Vice President for Health Sciences or the actual or acting chief executive of health sciences colleges of the University of Minnesota Medical School or of the University. The remaining members of the Board include elected and at large members as determined by the Board as well as communities, service areas and populations served by Fairview subsidiaries or related organizations or divisions, both of which categories of members are elected by the Board, with one of the directors elected by the Regents of the University. The President and CEO of Fairview is the only Fairview employee who may serve on the Board. In January 2019, Board chair Ann Hengel's term ended and was replaced by Richard Ostlund, Esquire. As a member of the health system's board since 2013, Ostlund oversaw the selection of James Hereford as Fairview's president and CEO two years ago. More recently, he helped lead the re-negotiation of Fairview's new M Health Fairview partnership between Fairview, the University of Minnesota, and University of Minnesota Physicians.

CORPORATE GOVERNANCE POLICIES. The Board is committed to sound and effective corporate governance practices. The Governance Committee regularly reviews and adopts "best practices" in corporate governance and recommends changes to Fairview's corporate governance policies or processes as appropriate.

Fairview has a conflict-of-interest policy that applies to all members of the Board and requires disclosure of any conflict of interest or potential conflict of interest and includes a process for review and decision making relative to such disclosures.

Section Two – Year-to-Date Financial Statements

Fairview Health Services

Consolidated Balance Sheets
(Dollars in Thousands)
(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 55,106	$ 74,533
Short-term investments	330,206	560,588
Accounts receivable for medical services	788,363	623,419
Receivable under third-party payor contracts	11,286	1,229
Current portion of contributions receivable	9,049	10,081
Inventories	114,921	122,376
Other current assets	181,447	167,479
Total current assets	1,490,378	1,559,705
Investments	1,823,638	1,708,637
Assets limited as to use:		
Held by insurance subsidiaries	76,810	73,732
Restricted fund investments	42,579	38,727
Other assets limited as to use	92,197	96,845
Total assets limited as to use	211,586	209,304
Other long-term assets:		
Contributions receivable	10,227	10,254
Investments in related parties	42,103	43,641
Goodwill and intangible assets	92,285	92,929
Other long-term assets	45,079	44,545
Total other long-term assets	189,694	191,369
Land, buildings and equipment, net	1,467,875	1,355,435
Total assets	$ 5,183,171	$ 5,024,450

See accompanying notes.

Fairview Health Services

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

(Unaudited)

	March 31, 2019	December 31, 2018
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 277,000	$ 295,528
Accrued compensation and benefits	261,963	347,976
Payable under third-party payor contracts	9,466	14,906
Current maturities of long-term debt	25,571	29,738
Other current liabilities	155,035	119,690
Total current liabilities	729,035	807,838
Other liabilities:		
Insurance subsidiaries claims reserves	48,907	46,613
Workers' compensation claims reserves	49,602	48,252
Derivative financial instruments	64,793	57,645
Other long-term liabilities	190,447	72,026
Total other liabilities	353,749	224,536
Long-term debt	1,474,529	1,468,447
Total liabilities	2,557,313	2,500,821
Net assets:		
Without donor restrictions:		
Fairview Health Services	2,519,559	2,418,535
Non-controlling interests	51,104	50,594
Total net assets without donor restrictions	2,570,663	2,469,129
Net assets with donor restrictions	55,195	54,500
Total net assets	2,625,858	2,523,629
Total liabilities and net assets	$ 5,183,171	$ 5,024,450

See accompanying notes.

Fairview Health Services

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	**2018**
Operating revenues:		
Patient service revenue	1,297,069	1,238,548
Other operating revenue	166,130	148,023
Net assets released from donor restrictions	997	400
Total operating revenues	1,464,196	1,386,971
Expenses:		
Salaries and benefits	714,631	686,481
Supplies	354,276	335,855
Purchased services	238,212	180,568
Utilities and maintenance	46,105	44,655
Insurance and rent	23,369	21,726
State and local taxes	27,850	27,852
Other operating expenses	14,037	13,968
Depreciation and amortization	38,794	37,507
Interest	13,783	13,885
Total operating expenses	1,471,057	1,362,497
Operating income	(6,861)	24,474
Nonoperating gains (losses):		
Investment (loss) return	115,468	(9,016)
(Losses) gains on interest and basis rate swaps, net	(8,064)	8,973
Other nonoperating (losses) gains, net	(310)	(1,053)
Total nonoperating gains (losses)	107,094	(1,096)
Excess of revenues over expenses	100,233	23,378
Less amounts attributable to noncontrolling interests	(1,071)	(1,448)
Excess of revenues over expenses attributable to Fairview Health Services	$ 99,162	$ 21,930

See accompanying notes.

Fairview Health Services

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

(Unaudited)

	Three Months Ended March 31, 2019	2018
Net assets without donor restrictions, Fairview Health Services Services		
Excess of revenues over expenses	$ 99,162	$ 21,930
Pension and other postretirement liability adjustments	321	953
Other changes, net	1,541	(1,073)
Increase (decrease) in net assets without donor restrictions, Fairview Health Services	101,024	21,810
Net assets without donor restrictions, noncontrolling interests:		
Excess of revenues over expenses	1,071	1,448
Contributions from noncontrolling interests	384	219
Distributions to noncontrolling interests and other changes	(945)	(1,901)
Increase (decrease) in net assets without donor restrictions, noncontrolling interests	510	(234)
Donor-restricted net assets:		
Contributions and other changes, net	3,364	2,321
Net assets released from restrictions	(2,669)	(600)
Increase in donor-restricted net assets	695	1,721
Total increase in net assets	102,229	23,297
Net assets at beginning of period	2,523,629	2,517,916
Net assets at end of period	$ 2,625,858	$ 2,541,213

See accompanying notes.

Fairview Health Services

Consolidated Statements of Cash Flows
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2019	**2018**
Operating activities		
Increase in net assets	$ 102,229	$ 23,297
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	38,290	37,507
Net realized and unrealized (gains) losses on trading investments	(107,145)	16,595
Change in fair value of interest and basis rate swaps, net	7,148	(10,212)
Other, net	(3,902)	607
Changes in assets and liabilities:		
Accounts receivable for medical services	(164,945)	(85,627)
Other current assets	(16,571)	(7,672)
Current liabilities	(89,633)	(129,979)
Other assets and liabilities, net	11,675	(3,424)
Net cash (used in) provided by operating activities before changes in trading and alternative investments	(222,854)	(158,908)
Change in trading and alternative investments	218,959	181,628
Net cash (used in) provided by operating activities	(3,895)	22,720
Investing activities		
Purchases of land, buildings and equipment, net	(16,073)	(19,936)
Net cash used in investing activities	(16,073)	(19,936)
Financing activities		
Proceeds from issuance of long-term debt	-	4,461
Principal payments on long-term debt	(2,641)	(2,688)
Other financing activities, net	1,893	(1,883)
Net cash (used in) financing activities	(748)	(110)
(Decrease) increase in cash and cash equivalents	(20,716)	2,674
Cash and cash equivalents at beginning of period	94,634	73,755
Cash and cash equivalents at end of period	$ 73,918	$ 76,429

See accompanying notes.

Fairview Health Services

Consolidating Balance Sheets
March 31, 2019
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Assets				
Current assets:				
Cash and cash equivalents	$ 19,111	$ 35,995	$ -	$ 55,106
Short-term investments	279,238	50,968	-	330,206
Accounts receivable for medical services	704,850	87,800	(4,287)	788,363
Receivable under third-party payor contracts	11,286	-	-	11,286
Current portion of contributions receivable	6,941	2,108	-	9,049
Inventories	111,871	3,050	-	114,921
Other current assets	137,338	51,663	(7,554)	181,447
Total current assets	1,270,635	231,584	(11,841)	1,490,378
Investments	1,757,553	66,085	-	1,823,638
Assets limited as to use:				
Held by insurance subsidiaries	-	76,810	-	76,810
Restricted fund investments	195	42,384	-	42,579
Other assets limited as to use	90,310	1,887	-	92,197
Total assets limited as to use	90,505	121,081	-	211,586
Other long-term assets:				
Contributions receivable	10,208	19	-	10,227
Investments in related parties	41,880	245	(22)	42,103
Goodwill and intangible assets	57,479	34,806	-	92,285
Other long-term assets	72,888	1,956	(29,765)	45,079
Total other long-term assets	182,455	37,026	(29,787)	189,694
Land, buildings and equipment, net	1,270,129	197,746	-	1,467,875
Total assets	$ 4,571,277	$ 653,522	$ (41,628)	$ 5,183,171

See accompanying notes.

Fairview Health Services

Consolidating Balance Sheets (continued)
March 31, 2019
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 227,280	$ 50,685	$ (965)	$ 277,000
Accrued compensation and benefits	226,295	35,668	-	261,963
Payable under third-party payor contracts	9,466	-	-	9,466
Current maturities of long-term debt	21,552	4,019	-	25,571
Other current liabilities	83,335	79,981	(8,281)	155,035
Total current liabilities	567,928	170,353	(9,246)	729,035
Other liabilities:				
Insurance subsidiaries claims reserves	29,027	19,880	-	48,907
Workers' compensation claims reserves	49,523	79	-	49,602
Derivative financial instruments	64,793	-	-	64,793
Other long-term liabilities	140,855	81,974	(32,382)	190,447
Total other liabilities	284,198	101,933	(32,382)	353,749
Long-term debt	1,403,444	71,085	-	1,474,529
Total liabilities	2,255,570	343,371	(41,628)	2,557,313
Net assets:				
Without donor restrictions				
Fairview Health Services	2,250,910	268,649	-	2,519,559
Non-controlling interests	44,982	6,122	-	51,104
Total net assets without donor restrictions	2,295,892	274,771	-	2,570,663
Net assets with donor restrictions	19,815	35,380	-	55,195
Total net assets	2,315,707	310,151	-	2,625,858
Total liabilities and net assets	$ 4,571,277	$ 653,522	$ (41,628)	$ 5,183,171

See accompanying notes.

Fairview Health Services

Statement of Operations and Changes in Net Assets
Three Months Ended March 31, 2019
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Operating revenues:				
Patient service revenue	$ 1,167,723	139,827	(10,481)	1,297,069
Other operating revenue	86,767	101,359	(21,996)	166,130
Net assets released from donor restrictions	952	966	(921)	997
Total operating revenues	1,255,442	242,152	(33,398)	1,464,196
Expenses:				
Salaries and benefits	623,135	94,776	(3,280)	714,631
Supplies	345,517	10,961	(2,202)	354,276
Purchased services	135,424	110,756	(7,968)	238,212
Utilities and maintenance	43,205	2,900	-	46,105
Insurance and rent	16,599	9,700	(2,930)	23,369
State and local taxes	22,759	5,091	-	27,850
Other operating expenses	9,344	21,711	(17,018)	14,037
Depreciation and amortization	34,984	3,810	-	38,794
Interest	12,643	1,140	-	13,783
Total operating expenses	1,243,610	260,845	(33,398)	1,471,057
Operating income/(loss)	11,832	(18,693)	-	(6,861)
Nonoperating (losses) gains:				
Investment income	110,162	5,306	-	115,468
(Losses) gains on interest and basis rate swaps, net	(8,064)	-	-	(8,064)
Other nonoperating (losses) gains, net	(321)	11	-	(310)
Total nonoperating gains	101,777	5,317	-	107,094
Excess (deficit) of revenues over expenses	113,609	(13,376)	-	100,233
Less amounts attributable to non-controlling interests	(946)	(125)	-	(1,071)
Excess (deficit) of revenues over expenses attributable to Fairview Health Services	$ 112,663	$ (13,501)	$ -	$ 99,162

See accompanying notes.

Fairview Health Services

Statement of Operations and Changes in Net Assets (continued)
Three Months Ended March 31, 2019
(Dollars in Thousands)
(Unaudited)

	Obligated Group	Non-Obligated Group	Eliminations and Reclasses	Consolidated Totals
Net assets without donor restrictions, Fairview Health Services:				
Excess (deficit) of revenues over expenses	$ 112,663	$ (13,501)	$ -	$ 99,162
Capital contribution	(41,997)	41,997	-	-
Pension and other postretirement liability adjustments	321	-	-	321
Other changes, net	2,095	(554)	-	1,541
Increase in net assets without donor restrictions, Fairview Health Services	73,082	27,942	-	101,024
Net assets without donor restrictions, non-controlling interests:				
Excess of revenues over expenses	946	125	-	1,071
Contributions from noncontrolling interests	-	384	-	384
Distributions to noncontrolling interests and other changes	-	(945)	-	(945)
Increase (decrease) in net assets without donor restrictions, noncontrolling interests	946	(436)	-	510
Donor-restricted net assets:				
Contributions and other changes, net	897	2,467	-	3,364
Net assets released from restrictions	(1,746)	(923)	-	(2,669)
(Decrease) Increase in donor-restricted net assets	(849)	1,544	-	695
Total increase in net assets	73,179	29,050	-	102,229
Net assets at beginning of period	2,242,528	281,101	-	2,523,629
Net assets at end of period	$ 2,315,707	$ 310,151	$ -	$ 2,625,858

See accompanying notes.

1. Organization and Basis of Presentation

Fairview Health Services, an integrated health system, along with its affiliates and subsidiaries is a non-profit corporation headquartered in Minnesota. Fairview is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). Fairview offers a broad continuum of health care services through its hospitals, clinics, senior and long-term care facilities, retail and specialty pharmacies, pharmacy benefit management ("PBM") services, rehabilitation centers, counseling and home health care programs, physician network and health insurance products.

The consolidated financial statements include the accounts of Fairview, which includes both tax-exempt and taxable entities. All significant inter-affiliate and inter-company balances and transactions have been eliminated in consolidation.

Fairview has prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Although the consolidated financial statements are unaudited, Fairview believes all normal and recurring adjustments considered necessary for the fair presentation of our financial position and operating results have been included.

This quarterly report supplements our annual financial statements for the year ended December 31, 2018, as audited by Ernst & Young, LLP. Certain notes and disclosures that are required in annual financial statements prepared in accordance with GAAP have been omitted as they substantially duplicate the disclosures contained in our annual financial statements. The information included in this quarterly disclosure should be read in conjunction with the most recent audited consolidated financial statements and accompanying notes.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Fairview's management regularly evaluates the accounting policies and estimates used. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

2. Accounting Policies

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Fairview adopted the standard on January 1, 2018, using the full retrospective method of transition. The ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance, and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The adoption of this ASU did not result in changes to previously reported revenues, other than presentation as amounts historically reported as provision for bad debts are implicit price concessions. The impact of adopting ASU 2014-09 is not material to total unrestricted revenues over expenses or unrestricted net assets.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic958), which provided guidance related to the presentation of financial statements of not-for-profit entities. Fairview adopted this presentation effective December 31, 2018 and retroactively applied it to all periods presented. The guidance requires net assets to be categorized either as net assets with donor restrictions or net assets without donor restrictions, and increased disclosures regarding liquidity and availability of resources. The adoption of this ASU did not result in changes to previously reported net assets, other than presentation. Further disclosure related to the adoption of this ASU can be found in Note 5.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) guidance related to the statements of cash flows. Fairview early adopted this presentation on January 1, 2018 and retroactively applied it to all periods presented. The guidance requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. Fairview notes $18,812 and $23,580 of restricted cash and cash equivalents was held as of March 31, 2019 and 2018, respectively, which has been added to the cash balances reported on the statement of cash flows under the new guidance.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Fairview adopted the standard on January 1, 2019, using the modified retrospective method of transition. This ASU requires that leasing arrangements longer than 12 months result in an entity recognizing an asset and liability. Other than the asset and liability recognition, the adoption of this ASU did not have a significant effect on Fairview's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958), which provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. Fairview adopted this standard on January 1, 2019 and applied it on a modified prospective basis. The adoption of this ASU did not have a significant effect on Fairview's consolidated financial statements.

(Dollars in Thousands)

3. Investments

The composition of Fairview's investments, including those with limited uses, is summarized below:

	March 31, 2019	December 31, 2018
Cash and cash equivalents	$ 109,843	$ 319,428
Certificate of deposits	1,686	5,702
Asset-backed securities	77,900	77,771
Mortgage-backed securities	48,981	40,460
Commercial paper	-	893
Corporate debt securities	325,206	363,764
Equity mutual funds	677,649	582,808
Equity securities	89,820	106,707
Equity comingled funds	67,758	78,799
Fixed income mutual funds	155,664	137,457
Municipal debt securities	54,274	48,563
U.S. government agency securities	190,878	171,582
U.S. Treasury debt securities	224,860	254,615
Fund of hedge funds	165,619	161,228
Hedge funds	156,638	116,513
Private capital funds	13,224	11,314
Real estate investment trusts	853	925
Sovereign Debt	4,578	-
	$ 2,365,430	$ 2,478,529

(Dollars in Thousands)

3. Investments (continued)

Alternative investments accounted for using the equity method of accounting and investments in certain entities that calculate net asset value (NAV) per share (or its equivalent), including restricted and unrestricted assets are as follows:

	Balance reported at March 31, 2019	Balance reported at December 31, 2018	Unfunded commitments	Redemption frequency	Redemption notice period
Equity commingled funds	$ 67,758	$ 78,799	$ –	Monthly	10 days
Equity long/short hedge funds	100,984	61,347	–	Monthly/Quarterly	30-90 days
Opportunistic fixed income hedge fund	25,246	24,731	–	Quarterly	60 days
Strategic fixed income hedge fund	30,407	30,435	–	Annually	120 days
Fund of hedge funds	165,619	161,228	–	Semi-annually	95 days
Real estate investment trust	853	925	–	Monthly/ quarterly	0-20 days
Private capital fund	13,224	11,314	7,480	7-9 years	N/A
Total	$ 404,091	$ 368,779	$ 7,480		

Investment return is summarized and reported in the consolidated statements of operations and changes in net assets as follows:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Dividends and interest	$ 10,663	$ 8,301
Investment expenses, net	(1,541)	(547)
Net realized gains	10,663	1,079
Changes in unrealized gains and losses on trading investments	98,031	(17,674)
	$ 117,816	$ (8,841)
Included in other operating revenue	$ 750	$ 159
Included in non-operating gains/(losses)	115,468	(9,016)
Included in changes in restricted net assets	1,598	16
	$ 117,816	$ (8,841)

(Dollars in Thousands)

3. Investments (continued)

Through Fairview's investments in fund of hedge funds, Fairview is indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these financial instruments may contain varying degrees of risk, Fairview's risk with respect to such transactions is limited to its capital balance in each investment.

4. Long-Term Debt

Fairview's long-term debt is summarized below:

	Annual Interest Rates	Final Scheduled Maturity	Amount Outstanding at March 31, 2019	Amount Outstanding at December 31, 2018
Health Care System Revenue Bonds:				
Series 2018A	4.00%–5.00%	2049	$ 263,890	$ 263,890
Series 2018B Taxable	Variable	2048	113,015	113,015
Series 2018C Taxable	Variable	2048	110,510	110,510
Series 2017A Tax-Exempt Bond	2.00-5.00%	2047	197,275	197,275
Series 2017B Taxable Loan	3.13%	2047	95,415	95,415
Series 2017C Taxable Loan	2.79%	2047	95,410	95,410
Series 2015A Tax-Exempt Bond	2.00-5.00%	2044	104,705	104,705
Series 2015 Taxable Bond	4.16%	2043	338,665	338,665
Senior housing revenue bonds & notes	Various fixed rate	Various	65,357	60,677
Capital lease obligations	Various fixed rate	Various	69,326	71,241
Other	Various fixed rate	Various	9,961	10,501
			1,463,529	1,461,304
Net unamortized premium			47,272	47,691
Unamortized debt issuance costs			(10,701)	(10,810)
Less current maturities of long-term debt			(25,571)	(29,738)
			$ 1,474,529	$ 1,468,447

5. Derivative Financial Instruments

Fairview uses derivative financial instruments, including interest rate swaps, as part of its risk management strategy to manage exposure to fluctuation in interest rates and to manage the overall cost of its debt. Derivatives are used to manage identified and approved exposures and are not used for speculative purposes.

Interest rate swaps between Fairview and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index (either the London Interbank Offered Rate (LIBOR) and a fixed rate and include counterparty credit risk.

(Dollars in Thousands)

5. Derivative Financial Instruments (continued)

Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual

obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for Fairview's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. Fairview does not anticipate non-performance by its counterparties.

The following is a summary of the outstanding positions under these interest rate swaps and basis rate swaps at March 31, 2019:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Floating to fixed rate swap	$ 147,620	November 15, 2047	3.4965%	62.4% of 1-month LIBOR and 0.29%
Floating to fixed rate swap	$ 74,880	November 15, 2047	3.6015%	62.4% of 1-month LIBOR and 0.29%

The fair value of derivative instruments is recorded in the consolidated balance sheets as follows:

	March 31, 2019	December 31, 2018
Floating to fixed rate swaps	$ (64,793)	$ (57,645)

None of the derivative financial instruments are designated as hedging instruments. Therefore, realized and unrealized gains and losses are recorded as (losses) gains on interest and basis rate swaps, net on the consolidated statements of operations and changes in net assets:

	Three Months Ended March 31, 2019	2018
Floating to fixed rate swaps	(8,064)	8,973

Fairview offsets fair value amounts recognized for the derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) based on the terms of the master netting agreement with the counterparty. Fairview's master netting agreements contain provisions that require Fairview to post collateral with the counterparty when the net liability of the derivative instruments is greater than the predetermined threshold. No collateral was required as of March 31, 2019 or December 31, 2018.

6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Section of the Financial Accounting Standards Board's Accounting Standards Codification establish a framework for measuring fair value. The framework consists of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair values for Level 1 assets in the fair value measurements tables were based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

Inputs are obtained from various sources, including market participants, dealers and brokers. Fairview utilizes a discounted cash flow methodology for valuing derivative financial instruments. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for "nonperformance" risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Fair value for Level 3 is based on unobservable market data. There were no financial instruments recorded at fair value classified as Level 3 for the three months ended March 31, 2019 or the year ended December 31, 2018.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Fairview believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The carrying values of cash and cash equivalents, accounts receivable for medical services, accounts payable and receivables and payables under third-party reimbursement contracts are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

(Dollars in Thousands)

6. Fair Value Measurements (continued)

The following table represents the financial instruments carried at fair value on a recurring basis as of March 31, 2019, based on the definition of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 109,843	$ –	$ –	$ 109,843
Asset-backed securities	–	77,900	–	77,900
Certificates of deposit	–	1,686	–	1,686
Mortgage-backed securities	–	48,981	–	48,981
Corporate debt securities	–	325,206	–	325,206
Equity Mutual Funds	677,649	–	–	677,649
Equity securities	88,740	1,080	–	89,820
Fixed income mutual funds	155,664	–	–	155,664
Municipal debt securities	–	54,274	–	54,274
U.S. government agency debt securities	–	190,878	–	190,878
U.S. Treasury debt securities	224,860	–	–	224,860
Sovereign Debt	–	4,578	–	4,578
Total investments at fair value	1,256,756	704,583	–	1,961,339
Investments not at fair value				404,091
Total investments				2,365,430
Liabilities				
Derivative financial instruments	$ –	$ (64,793)	$ —	$ (64,793)

The following table represents the financial instruments carried at fair value on a recurring basis as of December 31, 2018, based on the definition of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 319,428	$ –	$ –	$ 319,428
Asset-backed securities	–	77,771	–	77,771
Certificates of deposit	–	5,702	–	5,702
Mortgage-backed securities	–	40,460	–	40,460
Commercial Paper	–	893	–	893
Corporate debt securities	–	363,764	–	363,764
Equity Mutual Funds	582,808	–	–	582,808
Equity securities	106,707	–	–	106,707
Fixed income mutual funds	137,457	–	–	137,457
Municipal debt securities	–	48,563	–	48,563
U.S. government agency debt securities	–	171,582	–	171,582
U.S. Treasury debt securities	254,615	–	–	254,615
Total investments at fair value	1,401,015	708,735	–	2,109,750
Investments not at fair value				368,779
Total investments				2,478,529
Liabilities				
Derivative financial instruments	$ –	$ (57,645)	$ —	$ (57,645)

7. Subsequent Events

Fairview evaluated events and transactions occurring subsequent to March 31, 2019 through the date of issuance of the consolidated financial statements. During this period there were no subsequent events requiring recognition in the consolidated financial statements.

Section Three – Key Performance Indicators

	Three Months Ended March 31,	
	2019	2018
Hospitals and Surgery Centers		
Medical/Surgical staffed beds	1,982	2,026
Long-term acute care staffed beds	94	114
Total Staffed beds	2,076	2,140
Medical/surgical inpatient admissions	23,029	23,171
Long-term acute care inpatient admissions	271	247
Behavioral inpatient admissions	2,747	3,041
Skilled nursing inpatient admissions	99	100
Total Inpatient admissions	26,146	26,559
Outpatient registrations[1]	267,376	275,393
Emergency room visits	79,314	80,200
Observation days	7,598	6,372
Deliveries	3,067	3,770
Inpatient surgeries	7,578	7,437
Hospital outpatient surgeries	9,559	10,870
Ambulatory care centers surgeries	3,197	3,198
Total Surgeries	20,343	21,505
Medical/surgical patient days	102,767	103,176
Long-term acute care patient days	8,642	7,685
Behavioral patient days	25,063	25,606
Skilled nursing patient days	1,558	1,620
Total Patient Days	138,030	138,087

[1] 2018 HealthEast data updated to conform to the Fairview definition

	Three Months Ended March 31, 2019	2018
Occupancy %	70.5%	67.5%
Case mix index	1.59	1.64
Medical/surgical average length of stay	4.5	4.5
Long-term acute care length of stay	31.9	31.1
Behavioral average length of stay	9.1	8.4
Skilled Nursing average length of stay	15.7	16.2
Total Average Length of Stay	5.3	5.2
Clinics and Other Ambulatory Care		
Clinic work RVUs[2]	1,068,116	1,017,189
Clinic visits[2]	460,892	484,180
Institute for Athletic Medicine visits	46,138	48,523
Home Care visits	109,205	119,297
Orthotics & Prosthetics procedures	3,531	2,675
Long-Term Senior Care Facilities		
Beds in service	542	545
Skilled nursing patient days	45,565	46,454
Skilled nursing admissions	666	658
Occupancy %	93.4%	93.7%
Other Statistics		
Total provider FTEs	1,444	1,478
Pharmacy unit sales	579,112	569,426
Health Plan Services		
Membership	336,000	243,350

[2] 2018 HealthEast data updated to conform to the Fairview definition

	Three Months Ended March 31,	
	2019	2018
Profitability Ratios:		
EBIDA Margin	3.1%	5.5%
Operating Margin	(0.5%)	1.8%
Total Margin	6.8%	1.7%

	March 31, 2019	December 31, 2018
Liquidity Ratios:		
Days Cash on Hand	138.9	156.6
Days Cash on Hand (Obligated Group)	153.1	169.7
Debt Service Coverage Ratio (Ob. Group)	4.6	4.8
Days in Accounts Receivable – Hospitals	67.6	55.4
Days in Accounts Receivable – Clinics	58.6	35.1
Cash to Debt	147.3%	156.4%
Capital Structure Ratios:		
Debt to Capitalization	36.9%	37.8%

Section Four – Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the Three Months Ended March 31, 2019

This section is to provide a narrative explanation of Fairview's financial statements, thereby providing readers a more comprehensive understanding of the organization. In turn, this will enhance overall financial disclosure, provide a more informed context within which Fairview's financial information may be analyzed and highlight information about the quality and potential variability of our financial condition, results of operations and cash flows.

Quarter-to-Date Financial Results

For the three-months ended March 31, 2019, Fairview's total operating revenue of $1,464,2 million increased $76.7 million or 5.5% over the comparable period in 2018, while net patient service revenue increased by $58.5 million or 4.7%. Key drivers of the revenue growth included:

- Increased hospital revenue driven primarily by higher solid organ and bone marrow transplant volumes due to improved organ availability and network expansion
- Higher health plan revenue primarily from large group fully insured membership growth and higher third-party administrative fee realization
- Higher volumes from additional specialty services and new clinics as part of the newly formed Joint Clinical Enterprise under the MHealth agreement
- Increased pharmacy revenue driven by the combination of increased capture rates within clinics and hospitals, an additional specialty payer contract effective January 1, 2019, increased 340B specialty pharmacy contracts with external health systems, and specialty drug price inflation.
- One-time gains associated from a joint venture, payer contract settlement, and the sale of a building
- The above favorable drivers were partially offset by:
    - Generally lower patient medical and surgical volumes driven primarily by the combination of a mild infectious disease season and severe winter weather causing patients to defer appointments
    - Decreased reimbursement from a higher patient liable payer mix compared to the prior year which resulted in higher levels of uncompensated care

For the three-months ended March 31, 2019, Fairview's total operating expenses of $1,471.1 million increased $108.6 million or 8.0%. Key drivers of expense growth included:

- Increased salaries and benefits due to the combination of inflationary and employment market pressures, one-time restructuring related costs, employee onboarding costs associated with filling open positions, higher provider incentive costs, and higher patient facing salary costs as staffing costs were not able to flex to lower demand due to patient cancellations
- Pharmaceutical cost inflation, higher supplies expense due to increased supply usage associated with higher retail pharmacy volumes and unit cost increases outstripping reimbursement

- Increased purchased services costs including higher academic support costs and Joint Clinical Enterprise physician services associated with the updated MHealth Fairview Agreement
- Certain one-time strategic and integration costs associated with continued integration efforts

As a result of these combined factors, the net operating loss through March 2019 was ($6.9) million, compared to $25.0 million net operating income in the same period of 2018 driving a net operating margin of (0.5%) for three months ended March 2019 compared to 1.8% for the same period in 2018. Earnings before interest, depreciation and amortization margin was 3.1% compared to 5.5% the previous year.

Combined with results of operations, Fairview's consolidated excess of revenues over expenses was $100.2 million compared to $23.4 million in the same period from 2018. The increase from the same period in the prior year due to $108.8 million higher investment earnings, which was in-line with overall financial market performance, in 2019 compared to the prior year, partially offset by $17.0 million lower earnings on interest rate swaps as long-term rates have decreased through the first three months of 2019.

Further discussion of contributing factors follows below.

Total Operating Revenues

Total operating revenue of $1,464.2 million includes inpatient and outpatient hospital revenues, clinic patient revenue, pharmacy services, and other aspects of our diverse care continuum, as well as non-patient revenues including, PBM fees, rental income, management fees, health plan member premiums and administrative fees, joint venture earnings and income from cafeterias, transportation fees, gift shops and parking which are components of other operating revenue.

$ in millions	**Year-to-date March 2019**	**Year-to-date March 2018**	**Variance**	**% Variance**
Net patient service revenue	$1,297.1	$1,238.5	$58.5	4.7%
Other operating revenue	$167.1	$148.9	$18.2	12.2%
Total operating revenue	**$1,464.2**	**$1,387.4**	**$76.7**	**5.5%**

Patient Service Revenue

Patient service revenue was $1,297.1 million, an increase of $58.5 million or 4.7% over the comparable period in 2018 largely driven by the addition of specialty services revenue and new clinics of the newly formed Joint Clinical Enterprise combined with higher retail pharmacy revenue. See above for a more detailed and comprehensive list of contributing factors.

Patient services revenue is generated from a variety of sources that include managed care and indemnity-based health insurance companies, the federal Medicare program, as well as state Medicaid programs and uninsured patients (i.e. patients who do not have health insurance and are not covered by other forms of third-party arrangements). The composition of patient service revenue was as follows:

	Year-to-date March 2019	Year-to-date March 2018	Variance	% Variance
Inpatient revenue %	47.1%	48.4%	0.2%	0.4%
Outpatient revenue %	52.9%	51.6%	(0.2%)	(0.3%)

The percentage of gross patient charges by payment source was as follows:

	Year-to-date March 2019	Year-to-date March 2018	Variance	% Variance
Governmental:				
Medicare	38.4%	38.4%	0.0%	0.0%
Medicaid	18.7%	19.0%	(0.3%)	(1.6%)
Other	1.1%	1.2%	(0.1%)	(8.3%)
	58.2%	58.6%	(0.4%)	(0.7%)
Negotiated contracts and other:				
Blue Cross Blue Shield	12.6%	13.2%	(0.6%)	(4.5%)
Medica	4.8%	6.0%	(1.2%)	(20.0%)
HealthPartners	7.8%	8.3%	(0.5%)	(6.0%)
PreferredOne	5.4%	5.0%	0.4%	8.0%
Other	9.4%	7.6%	1.8%	23.7%)
	40.0%	40.1%	(0.1%)	(0.2%)
Self-pay	1.8%	1.3%	0.5%	38.5%
Total	100.0%	100.0%		

Through March 31, 2019, Fairview experienced a slight increase of gross patient revenue to self-pay patients compared to the prior year primarily driven by the continued market shift to high-deductible insurance plans driving higher patient liable activity.

	Year-to-date March 2019	Year-to-date March 2018	Variance	% Variance
Unit Pricing Metrics: (1)				
Net inpatient rev per admission	$20,098	$18,861	$1,237	6.6%
Net inpatient rev per patient day	$3,715	$3,601	$114	3.2%
Net outpatient rev per registration	$1,194	$1,120	$74	6.6%
Clinic net patient rev per wRVU	$147	$160	($13)	(8.1%)
Other Key Revenue Elements:				
Prior period revenue (in millions)	$9.7	$3.1	$6.7	>100%
Quality/TCOC revenue (in millions)	$0.5	$0.4	$0.1	29.6%

(1) Excludes quality incentives and total-cost-of-care (“TCOC”) shared savings revenue

Unit pricing trends are generally higher when compared to the prior year primarily due to higher transplant volumes and ancillary services in both the inpatient and outpatient settings combined with improvements made across most Fairview operating units including revenue cycle enhancements through improved documentation.

Net inpatient revenue per admission was $20,098 which was 6.6% higher than the prior year and largely attributable to increased transplant volumes in addition to higher ancillary services including lab, imaging, and drugs, as mentioned above. Net outpatient revenue per registration was $1,194, which is 6.6% higher than the prior year due to the mix of services performed. Clinic net patient revenue per provider work RVU was $147 which was 8.1% lower than the prior year driven primarily by reduced acuity from a change in overall service mix.

Patient Activity
The following table provides details on 2019 patient activity levels compared to the prior year:

	Year-to-date March 2019	**Year-to-date March 2018**	**Variance**	**% Variance**
Inpatient admissions	26,146	26,559	(413)	(1.6%)
Hospital patient days	138,030	138,087	(57)	(4.1%)
Average length of stay	5.3	5.2	(0.1)	(1.5%)
Outpatient registrations[1]	267,376	275,393	(8,017)	(2.9%)
Total surgeries	20,334	21,505	(1,171)	(5.4%)
Observation days	7,598	6,372	1,226	19.2%
Emergency room registrations	79,314	80,200	(886)	(1.1%)
Hospital case mix index	1.59	1.64	(0.05)	(3.0%)
Clinic wRVUs[1]	1,068,116	1,017,189	50,927	5.0%

[1] 2018 HealthEast data has been updated to conform to Fairview definition

Inpatient admissions were 26,146 or 1.6% lower compared to the same period last year due mainly to the lower infectious disease cases and severe winter weather affecting patient access and patients deferring services. Inpatient service mix changes contributed to lower patient acuity levels, reflected in a 3.0% decrease in our overall hospital case mix index.

Outpatient registrations decreased 8,017 or 2.9% compared to the same period in 2018 due to the combination of provider turnover, lower infectious disease cases, and severe winter weather affecting patient access and patients deferring services.

Total surgeries decreased 1,171 or 5.4% due to a combination of lower overall patient volumes, patients delaying elective surgeries due to the winter weather conditions, and competitive pressures within the marketplace.

Physician clinic work RVUs increased 50,927 or 5.0% compared to 2018 due to to geographic clinic expansion combined with additional providers.

Through comprehensive initiatives such as membership in accountable care products, expansion of retail clinics, and innovative virtual care investments, Fairview continues to emphasize growth through care model innovation, increasing access to existing and new providers, and increasing patient awareness within the market.

Volumes within our non-hospital and physician clinic operating units were mixed year-over-year. Patient visits to the Institute for Athletic Medicine were 4.9% lower than the prior year due to intense competitive pressures in the marketplace, while orthotics and prosthetic procedures were up 32.0% from 2018 due to the resolution of physician transitions experienced in the prior year and expansion of services to east metro locations. Home care visits were 8.5% greater than the prior year due to expanded services, increased patient demand and expanded coordination of care within the Fairview hospitals and clinics. Pharmacy unit sales increased 1.7% compared to the prior year, driven primarily by growth within specialty pharmaceuticals, including the continued availability of new medications, increased capture rates primarily within HealthEast hospitals, and increased 340B specialty pharmacy contracting with external health systems. Finally, Ebenezer resident days were 1.8% higher when compared to the prior year due to stabilization of patient turnover.

Uncompensated Care

Overall uncompensated care for year-to-date March 2019 totaled $41.9 million which was $13.3 million higher than the same period in 2018.

$ in millions	**Year-to-date March 2019**	**Year-to-date March 2018**	**Variance**	**% Variance**
Total uncompensated care	**$41.9**	**$28.7**	**($13.3)**	**(46.5%)**
% of total operating revenue	*2.9%*	*2.1%*	*(0.8%)*	*(38.8%)*

Fairview experienced higher uncompensated care stemming from an increase in self-pay activity as more individuals chose to forgo individual coverage, growth in high-deductible insurance plans, increased deductibles within insurance plans and higher patient need.

Collections are impacted by the economic ability of patients to pay and the effectiveness of our collection efforts. Fairview continues to focus on collection initiatives that promote coverage opportunities for our patients and enhance process efficiencies to reduce collection costs for these account categories. Fairview is dedicated to implementing best practices, enhancing the use of technology to improve the accuracy and timeliness of billing and payment processing and investing in staff training throughout the revenue cycle to provide market-leading customer service. We believe that in doing so we will increase patient satisfaction, improve collections and reduce outstanding accounts receivable.

Patient advocates from our financial counseling program assist patients to determine whether those patients meet eligibility requirements for various financial assistance programs, including charity care. They also expedite the process of applying for acceptance into certain government programs. Receivables from patients who are potentially eligible for Medicaid are classified as such, pending resolution of the associated application with appropriate estimated allowances recorded.

The net uncompensated care level increased from 2018, and surpassed the historical trend as a percent of revenue, due to the increase of uninsured and underinsured patients over the last two years.

The process of estimating the allowance for doubtful accounts requires us to estimate the collectability of self-pay accounts receivable, which is primarily based on our collection history for that category of receivable, adjusted for expected recoveries and anticipated changes in collection trends. We continually review our overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue, as well as by analyzing current period net revenue and patient activity by payer classification, aged accounts receivable and various other factors.

Efficiency and Effectiveness of Operations

A summary of key performance metrics is provided in the table below:

	Year-to-date March 2019	**Year-to-date March 2018**	**Variance**	**% Variance**
Salaries and benefits % TOR	48.8%	49.5%	(0.7%)	(1.4%)
Hospital FTE per 100 CMI-adj admissions	4.96	4.28	0.68	16.0%
Total FTEs	26,842	26,203	639	2.4%
Salaries and benefits per adjusted patient day	$1,836	$1,757	$79	4.5%
Clinic staff to provider ratio	3.46	3.45	0.01	0.3%
Purchased services ($ in millions)	$238.2	$180.6	$57.6	31.9%
Supplies % of TOR	24.2%	24.2%	0.0%	0.0%

(1) Excludes Range Hospital and Clinics and Grand Itasca

Salaries and benefits expense as a percentage of total operating revenue was 48.8%, which was 1.4% lower than the prior year due to rise in revenue coming from the growth in pharmacy volumes and health plan membership, the increases which do not have a significant labor component, partially offset by overall higher salary costs, as mentioned above.

Hospital productivity levels decreased period over period as FTEs per Case Mix Index ("CMI") adjusted admissions were 16.0% lower than the prior year primarily due to decreased productivity from weather related patient cancellation and decreased acuity. Physician clinic staff-to-provider ratio was 0.3% higher for the same period last year.

Supplies expense was 24.2% as a percentage of total operating revenue, which is equal to prior year ratio.

Purchased services expense of $238.2 million increased $57.6 million or 31.9% compared to the same period in 2018 primarily driven by higher academic support and Joint Clinical Enterprise clinics physician services costs combined with increased PBM cost of sales associated with Pharmacy PBM revenue growth.

Utilities, maintenance, insurance and rent expenses were $1.5 million higher than the same period in 2018 due primarily to the number of software maintenance programs entered during 2019 associated with expanded software maintenance programs and maintenance associated with recently implemented system tools partially offset by reduced building and equipment maintenance projects.

State and local taxes totaled $27.8 million which was the same amount as last year's total.

Depreciation and amortization expense totaled $38.8 million, which was $1.3 million or 3.4% higher than the prior year of $37.5 million due to the capital additions made in the latter part of calendar year 2018.

Year-to-date interest expense was $13.8 million compared to the prior year total of $13.9 million. The decrease was due to higher bond premium discount from the 2018 debt issuances, which is a contra expense partially offset by higher interest expense associated with the new borrowing within the 2018 bond issuance. The year-to-date, all-in effective interest rate, including swap-related cash flows was 4.1% compared to last year's average year-to-date rate of 4.3%.

Investment and Interest Rate Swap Results

For the three months ended March 31, 2019, investment gains were $115.5 million, which was $125.0 million favorable to last year. Investment performance was in line with market conditions for both periods. Fairview's long-term and short-term portfolios returned 6.9% and 1.2%, respectively through March 2019. This investment activity does not include earnings on restricted investments, which are returned directly to temporarily and permanently-restricted funds.

$ in thousands	**Year-to-date March 2019 Cash Flow Income**	**Year-to-date March 2019 Market Value**	**Net Swap Change**	**Mark to Market Valuation**
Fixed payer swaps	($916)	($1,148)	($8,064)	$64,647

The total liability of swap contracts increased from $57.6 million to $64.8 million through March 31, 2019 due to an increase in long-term interest rates which resulted in a flattening of the yield curve. Interest rate swaps have generated a total gain of $8.1 million through that same period which was comprised of negative cash interest expense of $0.9 million and non-cash, mark-to-market losses of $7.2 million. Although the fixed payer swaps generated negative cash flows, they are structured to synthetically fix the 2008 CDE bond interest expense to minimize interest expense volatility. The total notional value of outstanding swaps is $222.5 million. Fairview did not have any collateral posted against the swap liability at March 31, 2019 or December 31, 2018.

Balance Sheet and Cash Flow

$ in millions	**March 2019**	**Year Ended December 2018**	**Variance**
Total Unrestricted Liquidity Reserves	$2,208.9	$2,343.8	($134.9)
Average Daily Operating Expense	$15.9	$15.0	$0.9
Days Cash on Hand	138.8	156.6	(17.8)
Days Cash on Hand-Adjusted[1]	174.1	202.4	(28.3)
Total Debt Outstanding	$1,500.1	$1,498.2	$1.9
Unrestricted Net Assets	$2,570.7	$2,469.1	$101.5

[1] Excluding pharmacy and health plan variable costs

Cash to Debt Ratio	147.3%	156.4%	(9.2%)
Debt to Capitalization Ratio	36.9%	37.8%	(0.9%)

Days Cash on Hand Roll-Forward

	Cash and Investments	Days Cash On Hand
Beginning Cash and Investments - December 31, 2018	**$ 2,343.8**	**156.6**
Earnings before interest, depreciation, and amortization	45.7	2.9
Operating costs per day	-	(9.3)
Investment activity	115.5	7.3
Capital expenditures	(13.0)	(0.8)
Debt activity, net	(4.0)	(0.2)
Working capital and other changes	(279.0)	(17.7)
Ending Cash and Investments – March 31, 2019	**$ 2,208.9**	**138.8**

Patient accounts receivable totaled $788.4 million at March 31, 2019, an increase of $164.9 million from December 31, 2018. Corresponding patient accounts receivable days outstanding were 61.0 at March 31, 2019 compared to 48.0 days at December 31, 2018.

The increase in accounts receivable was driven by several of Fairview's commercial insurance payers holding claims during the first quarter primarily due to contract negotiations delaying payers from entering new contracts into their claims systems. While a few payers began releasing claims in late February, a majority of the payers holding claims did not begin releasing claims until late in March.

In addition, the effect of working capital on days cash on hand is primarily caused by Fairview's historically higher cash usage requirements in the first quarter due to timing of certain retirement benefit payments that depress days cash on hand given the annual nature of these benefits. Primary drivers of the change in working capital include payment of year-end payroll accruals, timing of payments for accounts payable, an increase in self-pay patient accounts receivable, and payment holds on patient accounts with certain payers that have temporarily increased accounts receivable.

The increased operating costs per day compared to 2018 is primarily due to higher overall salaries and benefit expense, increased professional medical service costs associated with the Joint Clinical Enterprise specialty services and clinics as part of the new MHealth Fairview Agreement, higher overall supply costs per day driven by increased hospital and specialty pharmacy revenue, and higher medical claims costs associated with health plan membership variances. Without Pharmacy and PreferredOne expenses, days cash on hand would increase from the current 138.8 to 174.1 as both PreferredOne and Pharmacy have a dilutive impact on days cash on hand levels due to the associated operating costs, while the costs are variable expenses and covered by revenue.

Capital and Joint Venture Investments

Capital expenditures funded through March 31, 2019 total $16.1 million compared to $19.9 million in the same period last year. Fairview analyzes and manages capital needs under a formal planning process for the authorization of capital expenditures. Fairview expects to continue to invest in information systems, modern technologies and the reconfiguration of facilities to more effectively provide patient care services, and to provide for a greater variety of clinical services consistent with demand throughout the communities we serve.

Reserves and Debt

Fairview maintains reserves for self-insured liabilities, including Workers' Compensation, professional and general liability and employee health insurance. Fairview continually monitors these reserves, including projected activity and market dynamics, to ensure proper recognition of liabilities and expense throughout the year. The total amount of reserves related to self-insured activity recorded as of March 31, 2019 was $147.6 million, which is $14.1 million higher than December 31, 2018 due to employee health claims due to the combination of employee growth, price inflation, and increased estimated experience.

Fairview's debt totaled $1,500.1 million, a $1.9 million increase from December 31, 2018.

The debt to capitalization ratio March 31, 2019 was 36.9% compared to 37.8% as of December 31, 2018. The decrease in leverage is due to the consolidated excess of revenues over expenses of $11.1 million in the current.

Financial Summary

Fairview's management team expects to drive improved combined financial performance by pursuing growth opportunities across service lines and shared service opportunities, including specialty pharmacy, driving efficiencies by eliminating redundant costs and rationalizing capital across Fairview. Management also continues to pursue additional integration opportunities with the University of Minnesota through the Joint Clinical Enterprise and recent acquisitions, including HealthEast, while making significant strategic investments in the future of the organization. Examples of these investments include the health transformation center, MHealth Fairview rebranding, and primary care redesign efforts to improve patient access, reduce inefficiencies, and duplicative costs. While these initiatives are dilutive to performance near-term, management expects these investments to add value longer-term.

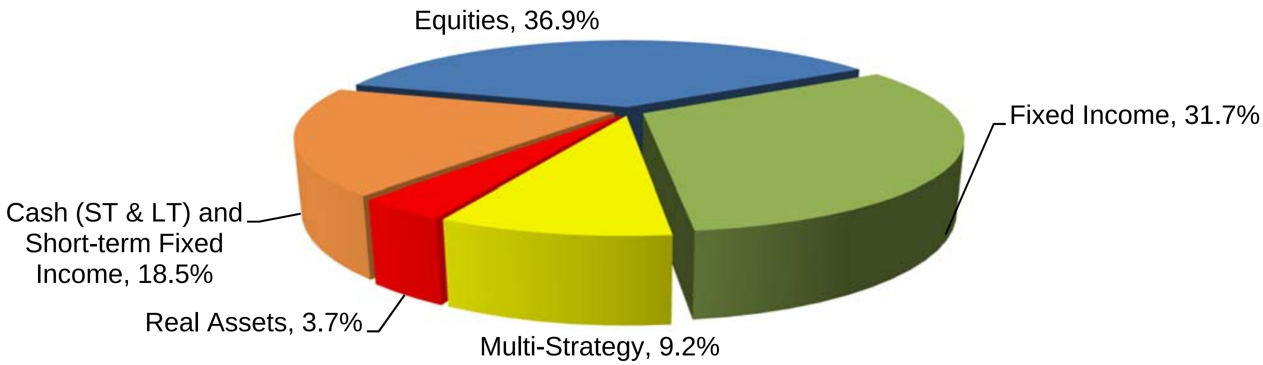
Section Five – Investment and Debt Schedule

FAIRVIEW HEALTH SERVICES
INVESTMENT SCHEDULE
(000's OMITTED)

Investment Asset Allocation
The composition of Fairview's current investment structure, as of March 31, 2019, is summarized below.

Unrestricted Cash and Investments	March 31, 2019		December 31, 2018	
Cash and cash equivalents	$ 55,106	2.5%	$ 74,533	3.2%
Short-term investments	330,205	14.9%	560,588	23.9%
Total short-term cash and investments	**385,311**	**17.4%**	**635,120**	**27.1%**
Long-term Investments	1,823,638	82.6%	1,708,637	72.9%
Total unrestricted cash and investments	**$ 2,208,949**	**100.0%**	**$ 2,343,757**	**100.0%**

Asset Class as a % of Total Unrestricted Cash and Investments



The total unrestricted investment allocation by asset class for the System's long-term investments is summarized as follows:

Unrestricted Long-term Investments	Target Allocation	March 31, 2019	December 31, 2018
Cash and Money Market	0.0%	1.3%	0.9%
Equities	42.0%	44.7%	43.1%
Multi-Strategy	18.0%	11.2%	11.5%
Fixed Income	35.0%	38.3%	40.0%
Real Assets	5.0%	4.5%	4.4%
Total Unrestricted Long-Term Investments	**100.0%**	**100.0%**	**100.0%**

DEBT SCHEDULE
(000's OMITTED)

Debt Structure

The composition of Fairview's current debt structure, as of March 31, 2019, is summarized below.

Series	Amount Outstanding	Structure	Final Term	Credit Enhancement	YTD Average Int. Rate*
2015A	$ 104,705	Fixed Rate	2044	None	4.86%
2015 Taxable	$ 338,665	Fixed Rate	2043	None	4.06%
2017A	$ 197,275	Fixed Rate	2047	None	4.50%
2017B	$ 95,415	Fixed Rate	2047	None	3.13%
2017C	$ 95,410	Fixed Rate	2047	None	2.79%
2018A	$ 263,890	Fixed Rate	2049	None	4.61%
2018B	$ 113,015	Variable Rate	2049	JPMorgan Chase LC	2.16%
2018C	$ 110,510	Variable Rate	2049	Wells Fargo LC	1.87%
Fairview Bonds	**$ 1,318,885**			FV Weighted Average YTD Interest Rate	**4.07%**
Other***	$ 181,214				
	$ 1,500,099